Village Bank & Trust Financial Corp.
Form 10-Q
August 14, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to ______

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Virginia	**16-1694602**
(State or other jurisdiction of	(I.R.S. Employer

incorporation or organization) Identification No.)

13319 Midlothian Turnpike, Midlothian, Virginia **23113**
(Address of principal executive offices) (Zip code)

804-897-3900

(Registrant’s telephone number, including area code)

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ¨	Accelerated Filer ¨
Non-Accelerated Filer ¨ (Do not check if smaller reporting company)	Smaller Reporting Company x
Emerging growth company ¨	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Indicate the number of shares outstanding of each of the issuer’s classes of common equity, as of the latest practicable date.

1,434,035 shares of common stock, $4.00 par value, outstanding as of August 10, 2018

Village Bank and Trust Financial Corp.

Form 10-Q

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Part I – Financial Information

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
June 30, 2018 (Unaudited) and December 31, 2017*
(in thousands, except share and per share data)

	June 30, 2018	**December 31, 2017**
Assets		
Cash and due from banks	$15,728	$ 17,810
Federal funds sold	-	-
Total cash and cash equivalents	15,728	17,810
Investment securities available for sale	47,137	49,711
Loans held for sale	9,106	8,047
Loans		
Outstandings	403,350	368,709
Allowance for loan losses	(3,208)	(3,239)
Deferred fees and costs, net	786	699
Total loans, net	400,928	366,169
Other real estate owned, net of valuation allowance	732	1,788
Assets held for sale	610	610
Premises and equipment, net	12,772	12,982
Bank owned life insurance	7,350	7,268
Accrued interest receivable	2,444	2,600
Other assets	9,545	9,989
	$506,352	$ 476,974
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	$120,718	$ 104,138
Interest bearing	312,265	307,486
Total deposits	432,983	411,624
Federal Home Loan Bank advances	20,500	12,300
Long-term debt - trust preferred securities	8,764	8,764
Subordinated debt, net	5,547	-
Other borrowings	668	1,584
Accrued interest payable	149	93

Other liabilities	2,947	3,275
Total liabilities	471,558	437,640
Shareholders' equity		
Preferred stock, $4 par value, $1,000 liquidation preference, 1,000,000 shares authorized; no shares issued and outstanding at June 30, 2018 and 5,027 shares issued and outstanding at December 31, 2017	-	20
Common stock, $4 par value - 10,000,000 shares authorized; 1,433,947 shares issued and outstanding at June 30, 2018 and 1,430,751 shares issued and outstanding at December 31, 2017	5,683	5,672
Additional paid-in capital	53,154	58,055
Accumulated deficit	(23,753)	(24,693)
Common stock warrant	732	732
Stock in directors rabbi trust	(998)	(1,010)
Directors deferred fees obligation	998	1,010
Accumulated other comprehensive loss	(1,022)	(452)
Total shareholders' equity	34,794	39,334
	$506,352	$ 476,974

** Derived from audited consolidated financial statements*

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Operations
Three and Six Months Ended June 30, 2018 and 2017
(Unaudited)
(in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	**2017**	**2018**	**2017**
Interest income				
Loans	$4,873	$3,993	$9,361	$7,951
Investment securities	259	165	522	328
Federal funds sold	20	34	46	45
Total interest income	5,152	4,192	9,929	8,324
Interest expense				
Deposits	659	589	1,290	1,155
Borrowed funds	265	81	400	154
Total interest expense	924	670	1,690	1,309
Net interest income	4,228	3,522	8,239	7,015
Provision for loan losses	-	-	-	-
Net interest income after provision for loan losses	4,228	3,522	8,239	7,015
Noninterest income				
Service charges and fees	482	459	939	912
Mortgage banking income, net	1,120	1,236	1,937	2,369
Loss on sale of investment securities	-	-	-	(9)
Other	65	70	124	143
Total noninterest income	1,667	1,765	3,000	3,415
Noninterest expense				
Salaries and benefits	2,972	3,048	5,915	6,058
Occupancy	345	284	675	551
Equipment	214	177	430	360
Cease use lease obligation	-	-	-	(125)
Supplies	47	62	104	117
Professional and outside services	802	727	1,521	1,512
Advertising and marketing	67	51	147	140
Foreclosed assets, net	(5)	30	(74)	(162)
FDIC insurance premium	79	69	156	138
Other operating expense	580	508	1,087	961
Total noninterest expense	5,101	4,956	9,961	9,550
Income before income tax expense	794	331	1,278	880

Income tax expense	153	94	225	227
Net income	641	237	1,053	653
Preferred stock dividends and amortization of discount	-	(114)	(113)	(272)
Net income available to common shareholders	$641	$123	$940	$381
Earnings per common share, basic	$0.45	$0.09	$0.66	$0.27
Earnings per common share, diluted	$0.45	$0.09	$0.66	$0.27

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Comprehensive Income (Loss)
Three and Six Months Ended June 30, 2018 and 2017
(Unaudited)
(in thousands)

	Three Months Ended		**Six Months Ended**	
	June 30,		**June 30,**	
	2018	**2017**	**2018**	**2107**
Net income	$641	$237	$1,053	$653
Other comprehensive income (loss)				
Unrealized holding gains (losses) arising during the period	(189)	100	(727)	47
Tax effect	(39)	34	(153)	16
Net change in unrealized holding gains (losses) on securities available for sale, net of tax	(150)	66	(574)	31
Reclassification adjustment				
Reclassification adjustment for losses realized in income	-	-	-	9
Tax effect	-	-	-	3
Reclassification for losses included in net income, net of tax	-	-	-	6
Minimum pension adjustment	3	3	6	6
Tax effect	1	1	2	2
Minimum pension adjustment, net of tax	2	2	4	4
Total other comprehensive income (loss)	(148)	68	(570)	41
Total comprehensive income (loss)	$493	$305	$483	$694

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Shareholders' Equity
Six Months Ended June 30, 2018 and 2017
(Unaudited)
(in thousands)

	Preferred Stock	Common Stock	Additional Paid-in Capital	Retained Deficit	Warrant	Stock in Directors Rabbi Trust	Directors Deferred Fees Obligation	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2017	$ 20	$ 5,672	$ 58,055	$ (24,693)	$ 732	$ (1,010)	$ 1,010	$ (452)	$ 39,334
Preferred stock redemption	(20)		(5,007)	-	-	-	-	-	(5,027)
Preferred stock dividend	-	-	-	(113)	-	-	-	-	(113)
Restricted stock redemption	-	-	-	-	-	12	(12)	-	-
Issuance of common stock	-	11	(11)	-	-	-	-	-	-
Stock based compensation	-	-	117	-	-	-	-	-	117
Net income	-	-	-	1,053	-	-	-	-	1,053
Other comprehensive loss	-	-	-	-	-	-	-	(570)	(570)
Balance, June 30, 2018	$ -	$ 5,683	$ 53,154	$ (23,753)	$ 732	$ (998)	$ 998	$ (1,022)	$ 34,794
Balance, December 31, 2016	$ 23	$ 5,629	$ 58,643	$ (21,172)	$ 732	$ (1,034)	$ 1,034	$ (241)	$ 43,614
Preferred stock redemption	(3)	-	(685)	-	-	-	-	-	(688)
Preferred stock dividend	-	-	-	(272)	-	-	-	-	(272)
Restricted stock redemption	-	-	-	-	-	24	(24)	-	-
Issuance of common stock	-	14	(14)	-	-	-	-	-	-
Stock based compensation	-	-	120	-	-	-	-	-	120
Net income	-	-	-	653	-	-	-	-	653
Other comprehensive	-	-	-	-	-	-	-	41	41

income									
Balance, June 30, 2017	$ 20	$ 5,643	$ 58,064	$ (20,791)	$ 732	$ (1,010)	$ 1,010	$ (200)	$ 43,468

See accompanying notes to consolidated financial statements.

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Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Six Months Ended June 30, 2018 and 2017
(Unaudited)
(in thousands)

	2018			**2017**		
Cash Flows from Operating Activities						
Net income	$	1,053		$	653	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization		368			368	
Deferred income taxes		225			226	
Write-down of other real estate owned		-			351	
Valuation allowance other real estate owned		-			(331	)
Loss on securities sold		-			9	
Gain on loans sold		(2,451	)		(2,800	)
Gain on sale of other real estate owned		(83	)		(218	)
Stock compensation expense		117			120	
Proceeds from sale of mortgage loans		79,036			88,924	
Origination of mortgage loans for sale		(77,644	)		(82,368	)
Amortization of premiums and accretion of discounts on securities, net		57			43	
Increase in bank owned life insurance		(82	)		(83	)
Net change in:						
Interest receivable		156			112	
Other assets		375			(177	)

Interest payable	56	(6)
Other liabilities	(328)	(984)
Net cash provided by operating activities	855	3,839
Cash Flows from Investing Activities		
Purchases of available for sale securities	-	(2,055)
Proceeds from the sale of available for sale securities	-	1,993
Proceeds from maturities, calls and paydowns of available for sale securities	1,791	909
Net increase in loans	(34,759)	(3,027)
Proceeds from sale of other real estate owned	1,139	1,621
Purchases of premises and equipment	(158)	(412)
Net cash used in investing activities	(31,987)	(971)
Cash Flows from Financing Activities		
Redeemption of preferred stock	(5,027)	(688)
Payment of preferred dividends	(113)	(2,916)
Net increase in deposits	21,359	22,114
Net increase (decrease) in Federal Home Loan Bank advances	8,200	(800)
Net increase (decrease) in other borrowings	(908)	(81)
Issuance of Subordinated debt, net	5,539	-
Net cash provided by financing activities	29,050	17,629
Net increase (decrease) in cash and cash equivalents	(2,082)	20,497
	17,810	11,796

Cash and cash equivalents, beginning of period				
Cash and cash equivalents, end of period	$	15,728	$	32,293
Supplemental Disclosure of Cash Flow Information				
Cash payments for interest	$	1,634	$	1,315
Supplemental Schedule of Non Cash Activities				
Real estate owned assets acquired in settlement of loans	$	-	$	285
Dividends on preferred stock accrued	$	-	$	272

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary

Notes to Consolidated Financial Statements

Three and Six Months Ended June 30, 2018 and 2017

(Unaudited)

Note 1 - Principles of presentation

Village Bank and Trust Financial Corp. (the “Company”) is the holding company of Village Bank (the “Bank”). The consolidated financial statements include the accounts of the Company, the Bank and the Bank’s subsidiary. All material intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the six month period ended June 30, 2018 are not necessarily indicative of the results to be expected for the full year ending December 31, 2018. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017 as filed with the Securities and Exchange Commission (“SEC”).

The Company has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of June 30, 2018 for items that should potentially be recognized or disclosed in these consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued.

On January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers,* and all subsequent amendments to the ASU (collectively ASU 2014-09), which (i) creates a single framework for recognizing revenue from contracts with customers that fall within its scope and (ii) revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as OREO. The Company's revenue is comprised of interest and non-interest revenue. The majority of our revenue generating transactions are not subject to ASU 2014-09, including revenue generated from financial instruments, such as our loans, letters of credit, investment securities, bank owned life insurance and gains on sales of loans held for sale. The Company completed its overall assessment of revenue streams and related contracts affected by the guidance and adopted ASU 2014-09 on January 1, 2018 with no impact on total shareholders' equity or net income.

The Company recognizes revenue as it is earned and noted no impact to its revenue recognition policies as a result of the adoption of ASU 2014-09. The following discussion is of revenues that are within the scope of the new revenue guidance:

- *Debit and credit interchange fee income* - Card processing fees consist of interchange fees from consumer debit and credit card networks and other card related services. Interchange fees are based on purchase volumes and other factors and are recognized as transactions occur.
- *Service charges on deposit accounts* - Revenue from service charges on deposit accounts is earned through deposit-related services, as well as overdraft, non-sufficient funds, account management and other deposit related fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transactional related services and fees.
- *Service charges on loan accounts* - Revenue from loan accounts consists primarily of fees earned on prepayment penalties. Revenue is recognized for the services at a point in time for transactional related services and fees.
- *Gains/Losses on sale of OREO* **-** The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer.

The accompanying consolidated financial statements and notes reflect certain reclassifications in prior periods to conform to the current presentation. As of March 31, 2018, the Company began netting commissions paid to generate mortgage banking revenue against the related revenue balances. Prior to 2018, these commission expenses were shown separately under noninterest expense on the Consolidated Statement of Operations. Accordingly, the balances associated with the mortgage banking segment for the period ended June 30, 2017 for "Gain on sale of loans", "Service charges and fees" and "Other income" under noninterest income, and "Commissions" under noninterest expense have been restated under "Mortgage banking income, net" within the Consolidated Statements of Operations to conform to this presentation. Management believes this will better represent actual mortgage banking income generated from this activity.

Note 2 - Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of operations for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses and its related provision including impaired loans and troubled debt restructurings ("TDRs"), the valuation allowance on the deferred tax asset, valuation of other real estate owned and the estimate of the fair value of assets held for sale.

Note 3 - Earnings per common share

The following table presents the basic and diluted earnings per common share computation (in thousands, except per share data):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator				
Net income - basic and diluted	$641	$237	$1,053	$653
Preferred stock dividend	-	(114)	(113)	(272)
Net income available to common shareholders	$641	$123	$940	$381
Denominator				
Weighted average shares outstanding - basic	1,435	1,430	1,433	1,429
Dilutive effect of common stock options	-	-	-	-
Weighted average shares outstanding - diluted	1,435	1,430	1,433	1,429
Earnings per share - basic	$0.45	$0.09	$0.66	$0.27
Earnings per share - diluted	$0.45	$0.09	$0.66	$0.27

Applicable guidance requires that outstanding, unvested share-based payment awards that contain voting rights and rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Accordingly, the weighted average number of shares of the Company’s common stock used in the calculation of basic and diluted net income per common share includes unvested shares of the Company’s outstanding restricted common stock.

The vesting of 6,510 and 7,870 respectively, of the unvested restricted shares included in Note 10 “Stock incentive plan” are dependent upon meeting certain performance criteria. As of June 30, 2018 and December 31, 2017, it was indeterminable whether these unvested restricted shares will vest and as such those shares are excluded from common shares issued and outstanding at each date and are not included in the computation of earnings per share for any period presented.

Outstanding options and warrants to purchase common stock were considered in the computation of diluted earnings per share for the periods presented. Stock options for 1,633 and 1,669 shares were not included in computing diluted earnings per share for the three and six months ended June 30, 2018, and stock options for 2,337 shares were not included in computing diluted earnings per share for the three and six months ended June 30, 2017, respectively, because their effects were anti-dilutive. Additionally, the impact of warrants to acquire shares of the Company's common stock in connection with the Company's participation in the Troubled Asset Relief Program is not included, as the warrants were anti-dilutive.

Note 4 – Investment securities available for sale

At June 30, 2018 and December 31, 2017, all of our securities were classified as available for sale. The following table presents the composition of our investment portfolio at the dates indicated (dollars in thousands):

	Par Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Average Yield
June 30, 2018						
US Government Agencies						
One to five years	$21,400	$ 21,538	$ -	$ (452)	$21,086	1.44 %
Five to ten years	168	169	-	(1)	168	2.03 %
More than ten years	1,983	1,986	-	(13)	1,973	2.32 %
	23,551	23,693	-	(466)	23,227	1.52 %
Mortgage-backed securities						
Five to ten years	3,009	3,068	-	(114)	2,954	1.71 %
More than ten years	17,377	17,501	1	(608)	16,894	2.38 %
	20,386	20,569	1	(722)	19,848	2.28 %
Subordinated debt						
Five to ten years	4,050	4,096	-	(34)	4,062	3.08 %
Total investment securities	$47,987	$ 48,358	$ 1	$ (1,222)	$47,137	1.97 %
December 31, 2017						
US Government Agencies						
One to five years	$21,400	$ 21,561	$ -	$ (276)	$21,285	1.44 %
More than ten years	2,411	2,415	-	(17)	2,398	1.74 %
	23,811	23,976	-	(293)	23,683	1.47 %
Mortgage-backed securities						
Five to ten years	3,400	3,472	-	(43)	3,429	1.72 %
More than ten years	18,518	18,655	1	(145)	18,511	2.39 %
	21,918	22,127	1	(188)	21,940	2.28 %
Subordinated debt						
Five to ten years	4,050	4,103	11	(26)	4,088	3.08 %
Total investment securities	$49,779	$ 50,206	$ 12	$ (507)	$49,711	1.96 %

At June 30, 2018, the Company had investment securities with a fair value of $7,971,000 pledged to secure borrowings from the Federal Home Loan Bank of Atlanta ("FHLB"). At December 31, 2017, the Company had no investment securities pledged to secure borrowings from the FHLB. There were no investment securities pledged to secure deposit repurchase agreements at June 30, 2018 or December 31, 2017.

Gross realized gains and losses pertaining to available for sale securities are detailed as follows for the periods indicated (dollars in thousands):

	Three Months Ended June 30 2018	2017	Six Months Ended June 30, 2018	2017
Gross realized gains	$ -	$ -	$ -	$ -
Gross realized losses	-	-	-	(9)
	$ -	$ -	$ -	$ (9)

The Company sold approximately $2 million of investment securities available for sale at a loss of $9,000 for the six months ended June 30, 2017. The sale of these securities, which had fixed interest rates, allowed the Company to decrease its exposure to the anticipated upward movement in interest rates that would result in unrealized losses being recognized in shareholders' equity.

Investment securities available for sale that have an unrealized loss position at June 30, 2018 and December 31, 2017 are detailed below (in thousands):

	Securities in a loss position for less than 12 Months		Securities in a loss position for more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
June 30, 2018						
US Government Agencies	$6,058	$ (169)	$17,169	$ (297)	$23,227	$ (466)
Mortgage-backed securities	18,400	(665)	1,396	(57)	19,796	(722)
Subordinated debt	1,488	(34)	-	-	1,488	(34)
	$25,946	$ (868)	$18,565	$ (354)	$44,511	$ (1,222)
December 31, 2017						
US Government Agencies	$6,153	$ (76)	$17,530	$ (217)	$23,683	$ (293)
Mortgage-backed securities	20,227	(160)	1,651	(28)	21,878	(188)
Subordinated debt	1,021	(26)	-	-	1,021	(26)

$27,401	$ (262)	$19,181	$ (245)	$46,582	$ (507)

All of the unrealized losses are attributable to increases in interest rates and not to credit deterioration. Currently, the Company believes that it is probable that the Company will be able to collect all amounts due according to the contractual terms of the investments. Because the decline in market value is attributable to changes in interest rates and not to credit quality, and because it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other than temporarily impaired at June 30, 2018.

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Note 5 – Loans and allowance for loan losses

The following table presents the composition of our loan portfolio (excluding mortgage loans held for sale) at the dates indicated (dollars in thousands):

	June 30, 2018		**December 31, 2017**	
	Amount	**%**	**Amount**	**%**
Construction and land development				
Residential	$5,961	1.48 %	$5,361	1.45 %
Commercial	30,693	7.61 %	25,456	6.91 %
	36,654	9.09 %	30,817	8.36 %
Commercial real estate				
Owner occupied	98,541	24.43 %	85,004	23.06 %
Non-owner occupied	80,535	19.97 %	70,845	19.21 %
Multifamily	11,352	2.81 %	9,386	2.55 %
Farmland	245	0.06 %	270	0.07 %
	190,673	47.27 %	165,505	44.89 %
Consumer real estate				
Home equity lines	22,566	5.59 %	22,849	6.20 %
Secured by 1-4 family residential				
First deed of trust	58,808	14.58 %	57,919	15.71 %
Second deed of trust	9,269	2.30 %	7,460	2.02 %
	90,643	22.47 %	88,228	23.93 %
Commercial and industrial loans				
(except those secured by real estate)	41,092	10.19 %	36,506	9.90 %
Guaranteed student loans	42,133	10.45 %	45,805	12.42 %
Consumer and other	2,155	0.53 %	1,848	0.50 %
Total loans	403,350	100.0 %	368,709	100.0 %
Deferred fees and costs, net	786		699	
Less: allowance for loan losses	(3,208)		(3,239)	
	$400,928		$366,169	

The Bank has a purchased portfolio of rehabilitated student loans guaranteed by the Department of Education (“DOE”). The guarantee covers approximately 98% of principal and accrued interest. The loans are serviced by a third-party servicer that specializes in handling the special needs of the DOE student loan programs.

At June 30, 2018 and December 31, 2017, the Company had loans of $40,275,000 and $29,615,000 pledged to secure borrowings from the FHLB, respectively.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due as long as the remaining recorded investment in the loan is deemed fully collectible. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought to current and future payments are reasonably assured.

The following table provides information on nonaccrual loans segregated by type at the dates indicated (dollars in thousands):

	June 30, 2018	**December 31, 2017**
Construction and land development		
Commercial	$41	$ 43
	41	43
Commercial real estate		
Owner occupied	-	183
Non-owner occupied	515	-
	515	183
Consumer real estate		
Home equity lines	130	135
Secured by 1-4 family residential		
First deed of trust	627	1,000
Second deed of trust	66	67
	823	1,202
Commercial and industrial loans		
(except those secured by real estate)	536	870
Consumer and other	12	22
Total loans	$1,927	$ 2,320

The Company assigns risk rating classifications to its loans. These risk ratings are divided into the following groups:

- Risk rated 1 to 4 loans are considered of sufficient quality to preclude an adverse rating. These assets generally are well protected by the current net worth and paying capacity of the obligor or by the value of the asset or underlying collateral;
- Risk rated 5 loans are defined as having potential weaknesses that deserve management's close attention;

- Risk rated 6 loans are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any; and
- Risk rated 7 loans have all the weaknesses inherent in substandard loans, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable.

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The following tables provide information on the risk rating of loans at the dates indicated (dollars in thousands):

	Risk Rated 1-4	Risk Rated 5	Risk Rated 6	Risk Rated 7	Total Loans
June 30, 2018					
Construction and land development					
Residential	$5,961	$-	$-	$ -	$5,961
Commercial	29,186	1,136	371	-	30,693
	35,147	1,136	371	-	36,654
Commercial real estate					
Owner occupied	91,988	3,351	3,202	-	98,541
Non-owner occupied	80,020	-	515	-	80,535
Multifamily	11,183	169	-	-	11,352
Farmland	245	-	-	-	245
	183,436	3,520	3,717	-	190,673
Consumer real estate					
Home equity lines	21,492	934	140	-	22,566
Secured by 1-4 family residential					
First deed of trust	55,290	2,286	1,232	-	58,808
Second deed of trust	8,960	178	131	-	9,269
	85,742	3,398	1,503	-	90,643
Commercial and industrial loans					
(except those secured by real estate)	38,592	1,749	736	15	41,092
Guaranteed student loans	42,133	-	-	-	42,133
Consumer and other	2,141	-	14	-	2,155
Total loans	$387,191	$9,803	$6,341	$ 15	$403,350

December 31, 2017					
Construction and land development					
Residential	$5,361	$-	$-	$-	$5,361
Commercial	24,305	1,108	43	-	25,456
	29,666	1,108	43	-	30,817
Commercial real estate					
Owner occupied	78,791	2,716	3,497	-	85,004
Non-owner occupied	70,845	-	-	-	70,845
Multifamily	9,210	176	-	-	9,386
Farmland	270	-	-	-	270
	159,116	2,892	3,497	-	165,505
Consumer real estate					
Home equity lines	21,777	932	140	-	22,849
Secured by 1-4 family residential					
First deed of trust	53,591	2,637	1,691	-	57,919

Second deed of trust	7,140	181	139	-	7,460
	82,508	3,750	1,970	-	88,228
Commercial and industrial loans					
(except those secured by real estate)	35,143	139	529	695	36,506
Guaranteed student loans	45,805	-	-	-	45,805
Consumer and other	1,826	4	18	-	1,848
Total loans	$354,064	$7,893	$6,057	$695	$368,709

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The following table presents the aging of the recorded investment in past due loans and leases as of the dates indicated (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
June 30, 2018							
Construction and land development							
Residential	$-	$ -	$ -	$-	$5,961	$5,961	$ -
Commercial	-	-	-	-	30,693	30,693	-
	-	-	-	-	36,654	36,654	-
Commercial real estate							
Owner occupied	-	-	-	-	98,541	98,541	-
Non-owner occupied	-	-	-	-	80,535	80,535	-
Multifamily	-	-	-	-	11,352	11,352	-
Farmland	-	-	-	-	245	245	-
	-	-	-	-	190,673	190,673	-
Consumer real estate							
Home equity lines	64	-	-	64	22,502	22,566	-
Secured by 1-4 family residential							
First deed of trust	244	10	-	254	58,554	58,808	-
Second deed of trust	186	-	-	186	9,083	9,269	-
	494	10	-	504	90,139	90,643	-
Commercial and industrial loans							
(except those secured by real estate)	8	-	-	8	41,084	41,092	-
Guaranteed student loans	1,788	1,312	6,577	9,677	32,456	42,133	6,577
Consumer and other	4	-	-	4	2,151	2,155	-
Total loans	$2,294	$ 1,322	$ 6,577	$10,193	$393,157	$403,350	$ 6,577

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
December 31, 2017							
Construction and land development							
Residential	$-	$-	$ -	$-	$5,361	$5,361	$ -
Commercial	-	-	-	-	25,456	25,456	-
	-	-	-	-	30,817	30,817	-

Commercial real estate							
Owner occupied	-	-	-	-	85,004	85,004	-
Non-owner occupied	-	-	-	-	70,845	70,845	-
Multifamily	-	-	-	-	9,386	9,386	-
Farmland	-	-	-	-	270	270	-
	-	-	-	-	165,505	165,505	-
Consumer real estate							
Home equity lines	18	-	-	18	22,831	22,849	-
Secured by 1-4 family residential							
First deed of trust	457	-	-	457	57,462	57,919	-
Second deed of trust	91	-	-	91	7,369	7,460	-
	566	-	-	566	87,662	88,228	-
Commercial and industrial loans							
(except those secured by real estate)	-	3	-	3	36,503	36,506	-
Guaranteed student loans	2,891	1,300	7,229	11,420	34,385	45,805	7,229
Consumer and other	2	-	-	2	1,846	1,848	-
Total loans	$3,459	$1,303	$ 7,229	$11,991	$356,718	$368,709	$ 7,229

Loans greater than 90 days past due are student loans that are guaranteed by the DOE which covers approximately 98% of the principal and interest. Accordingly, these loans will not be placed on nonaccrual status and are not considered to be impaired.

Loans are considered impaired when, based on current information and events it is probable the Company will be unable to collect all amounts when due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuations. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged off when deemed uncollectible. Impaired loans are set forth in the following table as of the dates indicated (in thousands):

	June 30, 2018		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Commercial	$ 819	$ 917	$ -
	819	917	-
Commercial real estate			
Owner occupied	3,806	3,806	-
Non-owner occupied	2,626	2,626	-
	6,432	6,432	-
Consumer real estate			
Home equity lines	705	705	-
Secured by 1-4 family residential			
First deed of trust	2,689	2,689	-
Second deed of trust	651	858	-
	4,045	4,252	-
Commercial and industrial loans			
(except those secured by real estate)	440	787	-
Consumer and other	1	1	-
	11,737	12,389	-
With an allowance recorded			
Commercial real estate			
Owner occupied	1,470	1,485	13
	1,470	1,485	13
Consumer real estate			
Secured by 1-4 family residential			
First deed of trust	448	470	46
Second deed of trust	165	165	7
	613	635	53
Commercial and industrial loans			
(except those secured by real estate)	400	599	141
Consumer and other	13	13	13
	2,496	2,732	220
Total			
Construction and land development			
Commercial	819	917	-
	819	917	-
Commercial real estate			
Owner occupied	5,276	5,291	13
Non-owner occupied	2,626	2,626	-
	7,902	7,917	13
Consumer real estate			
Home equity lines	705	705	-

Secured by 1-4 family residential,			
First deed of trust	3,137	3,159	46
Second deed of trust	816	1,023	7
	4,658	4,887	53
Commercial and industrial loans			
(except those secured by real estate)	840	1,386	141
Consumer and other	14	14	13
	$ 14,233	$ 15,121	$ 220

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	December 31, 2017		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Construction and land development			
Commercial	$ 502	$ 600	$ -
	502	600	-
Commercial real estate			
Owner occupied	3,879	3,879	-
Non-owner occupied	2,153	2,153	-
	6,032	6,032	-
Consumer real estate			
Home equity lines	577	577	-
Secured by 1-4 family residential			
First deed of trust	3,931	3,931	-
Second deed of trust	505	713	-
	5,013	5,221	-
Commercial and industrial loans			
(except those secured by real estate)	480	827	-
Consumer and other	3	3	-
	12,030	12,683	-
With an allowance recorded			
Commercial real estate			
Owner occupied	1,491	1,506	18
	1,491	1,506	18
Consumer real estate			
Home equity lines	135	135	2
Secured by 1-4 family residential			
First deed of trust	814	814	98
Second deed of trust	85	85	4
	1,034	1,034	104
Commercial and industrial loans			
(except those secured by real estate)	740	740	375
Consumer and other	19	19	18
	3,284	3,299	515
Total			
Construction and land development			
Commercial	502	600	-
	502	600	-
Commercial real estate			
Owner occupied	5,370	5,385	18
Non-owner occupied	2,153	2,153	-
	7,523	7,538	18
Consumer real estate			

Home equity lines	712	712	2
Secured by 1-4 family residential,			
First deed of trust	4,745	4,745	98
Second deed of trust	590	798	4
	6,047	6,255	104
Commercial and industrial loans			
(except those secured by real estate)	1,220	1,567	375
Consumer and other	22	22	18
	$ 15,314	$ 15,982	$ 515

The following is a summary of average recorded investment in impaired loans with and without a valuation allowance and interest income recognized on those loans for the periods indicated (in thousands):

For the Three Months Ended June 30, 2018	For the Six Months